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**HOUSTON'S LEADING INFORMATION SOURCE**
  

**'Netting cheap fares/Some are taking cyberspace route; [3 STAR Edition]**

CHARLES BOISSEAU. Houston Chronicle (pre-1997 Fulltext). Houston, Tex.: Aug 16, 1996. pg. 1

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#### Abstract (Document Summary)

On Wednesday, for example, Northwest Airlines offered Internet surfers flights between its hub in Minneapolis and several cities, including round trips to Houston, for \$129. American Airlines offered round-trip flights between 27 cities, including between Houston and Miami, for \$129 as well.

Hong Kong-based Cathay Pacific Airways was the first airline to use the Internet to auction off empty seats, and it recently completed its third auction, awarding 387 first-class, business and economy seats from Los Angeles or New York to Hong Kong. The airline received 14,760 bids during the auction, which lasted 2 1/2 months.

American Airlines, which has emerged as the leader of airlines' flights into cyberspace, also has staged ""silent auctions" on the Internet to sell tickets, tour packages and other items. On Wednesday the Fort Worth airline completed the latest auction, offering to the highest bidder five trips to selected U.S. cities. The auction lasted nine days, with the high bids posted periodically. In an earlier auction, a bidder won a transcontinental first-class ticket for \$475, a savings of more than \$3,700 off the full price.

#### Full Text (1527 words)

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An often heard analogy in the airline industry is that seats are perishable much like fruit. On average, nearly two-thirds of an airline's seats go empty - ""rotting" upon takeoff like an old banana.

Carriers have long struggled to find ways to fill surplus seats without alienating high-paying passengers, using computerized yield management systems and elaborate fare structures.

The latest wrinkle may come with the Internet, which some experts believe is an ideal mechanism to help carriers find buyers at the last minute for seats that otherwise would go unsold.

Several airlines are experimenting with selling tickets in cyberspace via silent auctions or last-minute fare deals publicized by e-mail.

On Wednesday, for example, ①Northwest Airlines offered Internet surfers flights between its hub in Minneapolis and several cities, including round trips to Houston, for \$129. American Airlines offered round-trip flights between 27 cities, including between Houston and Miami, for \$129 as well.

The specials, publicized only on the Internet and good for weekend getaways, are far lower than any other fares. The deals are heavily restricted - travelers must leave on Saturday and return the following Monday or Tuesday - but they may offer a glimpse of more to come.

"In our business we have the brown banana problem," said Jon Austin, spokesman at ①Northwest Airlines. "This at least nibbles at it a bit."

Though U.S. airlines are enjoying record profits this year and their planes are flying fuller than ever, filling otherwise unsold seats represents a huge opportunity.

One Wall Street analyst stated the potential this way: If unsold seats had been filled through an auction system in 1995, earnings of U.S. airlines last year could have been \$8.3 billion - \$5.7 billion more than they actually were.

While airlines for years have used computers to predict demand and set fares to maximize revenues, the Internet's strengths of providing real-time communication and widely disseminated information provide a new opportunity to fill seats at the last minute.

"We're selling seats that normally would go unfilled," said David Castelveter, spokesman for USAir, which last month began offering "E-Savers" to subscribers on the Internet.

Airlines some time ago discovered the Internet is a natural fit for their business, allowing them to communicate directly with customers. Airlines today use their sites on the World Wide Web to provide thousands of pages of information, everything from flight schedules to the number of frequent flier points a member has. Some airlines even allow customers to book seats.

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But some kinks were evident in the latest auction: At close of bidding Wednesday, the highest bid listed was \$15,000 for two round-trip coach seats to one of nine selected U.S. cities - far more than they're worth. Some bidders were undoubtedly confused, thinking they were bidding frequent flier points, which was the currency used in a prior auction, a spokesman said.

"We're experimenting to see how people react, to see what factors enter in, how people bid and when they bid," said American spokesman Tim Smith.

In terms of numbers of airline tickets distributed, Smith said, American's NetSAAvers e-mail program is having

much more impact than the auctions. NetSAAvers, which was launched in March, sends e-mail messages to subscribers each Wednesday listing the latest specials on fares to selected markets for trips leaving Saturday and returning Monday or Tuesday. American even includes e-mail offers from Hilton hotels and Avis Rent A Car, travel partners also looking to unload unsold inventory.

The number of NetSAAver subscribers has gone from 20,000 in early May to 150,000, Smith said, and the company expects a quarter-million subscribers by year end.

The e-mail discounts grew from a service American began last year on a small cable TV network in Las Colinas, near Dallas-Fort Worth International Airport. After initially filling the channel with flight information and gate assignments, the airline expanded to offer some specials to sell seats that would otherwise go unsold for the upcoming weekend. Soon, customers began flooding the airline with e-mail, requesting the offers on the Internet.

Other airlines have joined in: In recent weeks, iNorthwest and USAir began offering their own e-mail discounts on their Web sites. However, unlike American's, which allows customers to book their tickets directly over the Internet, both iNorthwest and USAir require customers to go low-tech: You book their Internet fares by calling their toll-free numbers or a travel agent.

Houston-based Continental Airlines is getting in on the action, too. Under the name Cool (for ""Continental online") Travel Services, Continental expects within 30 to 45 days to begin a subscription e-mail service offering deep discounts on selected flights, said Eugene Higley, manager for online services.

The heavily restricted Internet deals appeal to people with disposable income and flexible schedules.

An owner of a Houston technical training company and part-time travel agent said one of his friends frequently takes advantage of American's service to fly with buddies to places like St. Louis ""just for the hell of it."

Some experts see the potential for Internet discounts as part of a broader trend sweeping the airline industry to lower costs through various forms of electronic ticket sales and distribution.

Julius Malodus, with Salomon Bros., believes the electronic innovations signal no less than a third ""revolution" in the industry, like the introduction of jet aircraft in the 1950s and deregulation of the industry in 1978.

""The airlines' new distribution systems for the first time will offer the opportunity to sell its very perishable seat product," Malodus said in a report.

But airline officials and other experts contend the potential isn't quite so dramatic. Airlines mainly would benefit from lower costs, not higher revenues, they say.

Donald Garrett, vice president of SH&E, an airline consulting firm in New York, said airlines will limit auctions because if they become too widespread they could ""dilute their basic business" - encouraging regular customers to hold out for the cheap seats.

Nonetheless, Garrett agreed the potential is big, and he expects all major airlines soon to offer auctions and deep discounts via the Internet. It is part of an industrywide effort to cut distribution costs, which include everything from travel agents' commissions to ticket mailings and which after labor are the second-biggest expense at a major airline.

To that end, many airlines already offer ""ticketless" systems, in which customers pay with a credit card and have their ticket reserved in the airline's computer, eliminating a paper ticket.

Garrett said the Internet and other electronic distribution systems ""feed upon themselves" and provide another way for passengers to bypass travel agents, who were paid \$6.4 billion in commissions in 1995, handling about 80 percent of all tickets sold at major carriers.

By taking advantage of electronic distribution systems, airlines can greatly lower agent commissions and other sales costs, Garrett said.

However, airline officials insist it's too early to tell if there is any revolution at work, or ultimately how widely they will make use of the Internet to unload seats.

"I think it probably at this point has more value to us as a publicity thing - and as something cool for the marketing people to work on - than it does as revenues," said Austin of ①Northwest. "But the whole thing is in its infancy. Though it's at that stage doesn't mean it doesn't have potential."

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### Web flying

Details of the special deals various airlines are offering on the Internet:

American:

Sends e-mail to subscribers each Wednesday listing Net SAAver Fares, listing specials on trips departing Saturday and returning Monday or Tuesday between various city pairs. Sign up at <http://www2.amcorp.com/cgi-bin/aans>.

Silent auctions: Also accepts bids for travel to selected cities. Its last auction closed on Wednesday. Address <http://www2.amcorp.com/cgi-bin/auction/user.cgi>.

①Cathay Pacific Airways:

Recently completed its third CyberTraveler Auction, selling to the highest bidder 387 round-trip tickets between Los Angeles or New York and Hong Kong for '97 travel. Address: <http://www.cathay-usa.com/auction.html>.

①Northwest:

Offers CyberSaver Fares each Wednesday (for travel on Saturdays and returning on Monday or Tuesday) to people who visit its web site at <http://www.nwa.com/nwa/flight/promos/auction.html>. The trips currently are to its hub cities, such as Minneapolis.

USAir:

Sends e-mail to subscribers each Wednesday listing specials for flights departing on Saturday and returning the following Sunday, Monday or Tuesday. However, only flights originating from Philadelphia and Boston are now offered. Address to subscribe: <http://www.usair.com/esavers.htm>.

### [Illustration]

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